



# Introduction

Gestão Financeira I  
Gestão Financeira  
Corporate Financel  
Corporate Finance

Licenciatura  
2015-2016

# Details of the Course

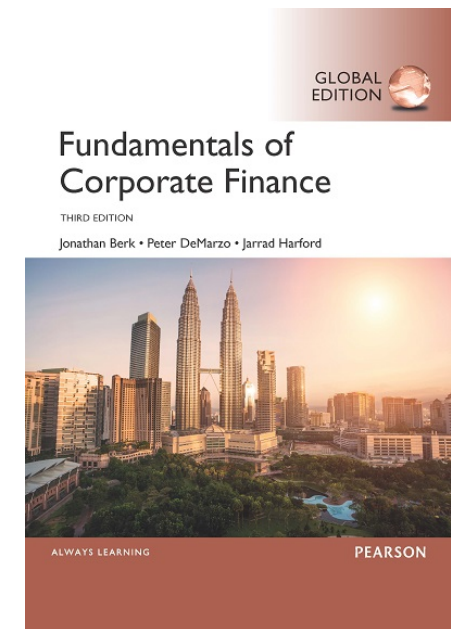
- Two 1-hour Lectures + One 2-hour Class;
- Material available in ISEG's website (aquila):
  - Course Syllabus;
  - Powerpoint Presentations;
  - Problem Sets to solve in class/home.

- Bibliography:

Berk, DeMarzo and Harford,

“Fundamentals of Corporate Finance”

3rd edition, Global edition





## Sistema de Avaliação

### 1. Avaliação Contínua:

- a) Participação nas aulas, resolução de exercícios e trabalhos (30%);
- b) Teste Intermédio na semana 7 (30%);
- c) Exame de Época Normal com segunda parte da matéria (40%).

Nota: avaliação contínua **MESMO**.

### 2. Exame Final na Época de Recurso (100%)



# Why Study Finance?

- In your business career, you may face such questions such as:
  - Should your firm launch a new product?
  - Which supplier should your firm choose?
  - Should your firm produce a part or outsource production?
  - Should your firm issue new stock or borrow money instead?
  - How can you raise money for your start-up firm?

# The Four Types of Firms (US)

- Sole Proprietorship
  - Business is owned and run by one person, with Unlimited personal liability;
- Partnership
  - Similar, but with more than one owner. Each and every partner is personally liable for all of the firm's debts. The partnership ends with the death or withdrawal of any single partner.
  - Limited Partnership has two types of owners: General Partners and Limited Partners. The latter have limited liability and cannot lose more than their initial investment. Cannot legally be involved in decision making.
- Limited Liability Company (LLC)
  - All owners have limited liability but they can also run the business.
- Corporation
  - A legal entity separate from its owners. The corporation is solely responsible for its own obligations. Its owners are not liable for any obligation the corporation enters into.





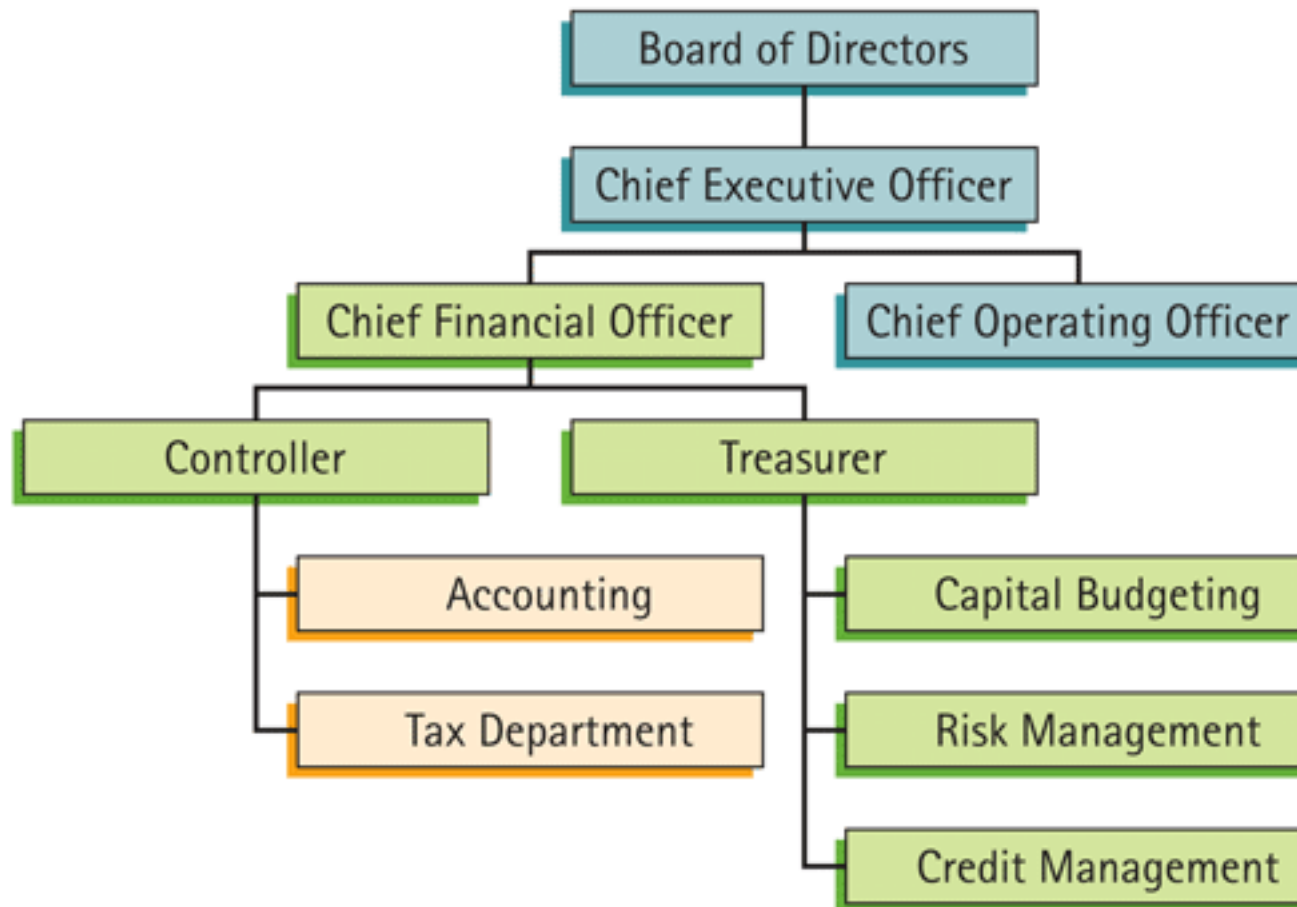
	Number of Owners	Liability for Firm's Debts	Owners Manage the Firm	Ownership Change Dissolves Firm	Taxation
<b>Sole Proprietorship</b>	One	Yes	Yes	Yes	Personal
<b>Partnership</b>	Can be unlimited	Yes; each partner is liable	Yes	Yes	Personal
<b>Limited Partnership</b>	One general partner (GP), no limit on limited partners (LP)	GP—Yes LP—No	GP—Yes LP—No	GP—Yes LP—No	Personal
<b>Private Limited Company</b>	Unlimited (private owners)	No	No (but they legally may)	No	Corporation tax
<b>Public Limited Company</b>	Unlimited (may be listed or unlisted)	No	No (but they legally may)	No	Corporation tax



# The Financial Manager

- The financial manager has three main tasks:
  - Make investment decisions
    - The financial manager must weigh the costs and benefits of each investment or project
    - They must decide which investments or projects qualify as good uses of the stockholders' money
  - Make financing decisions
    - The financial manager must decide whether to raise more money from new and existing owners by selling more shares of stock or to borrow the money instead
  - Manage cash flow from operating activities
    - The financial manager must ensure that the firm has enough cash on hand to meet its obligations at each point in time
    - This job is also known as *managing working capital*

# The Financial Manager's Place in the Corporation





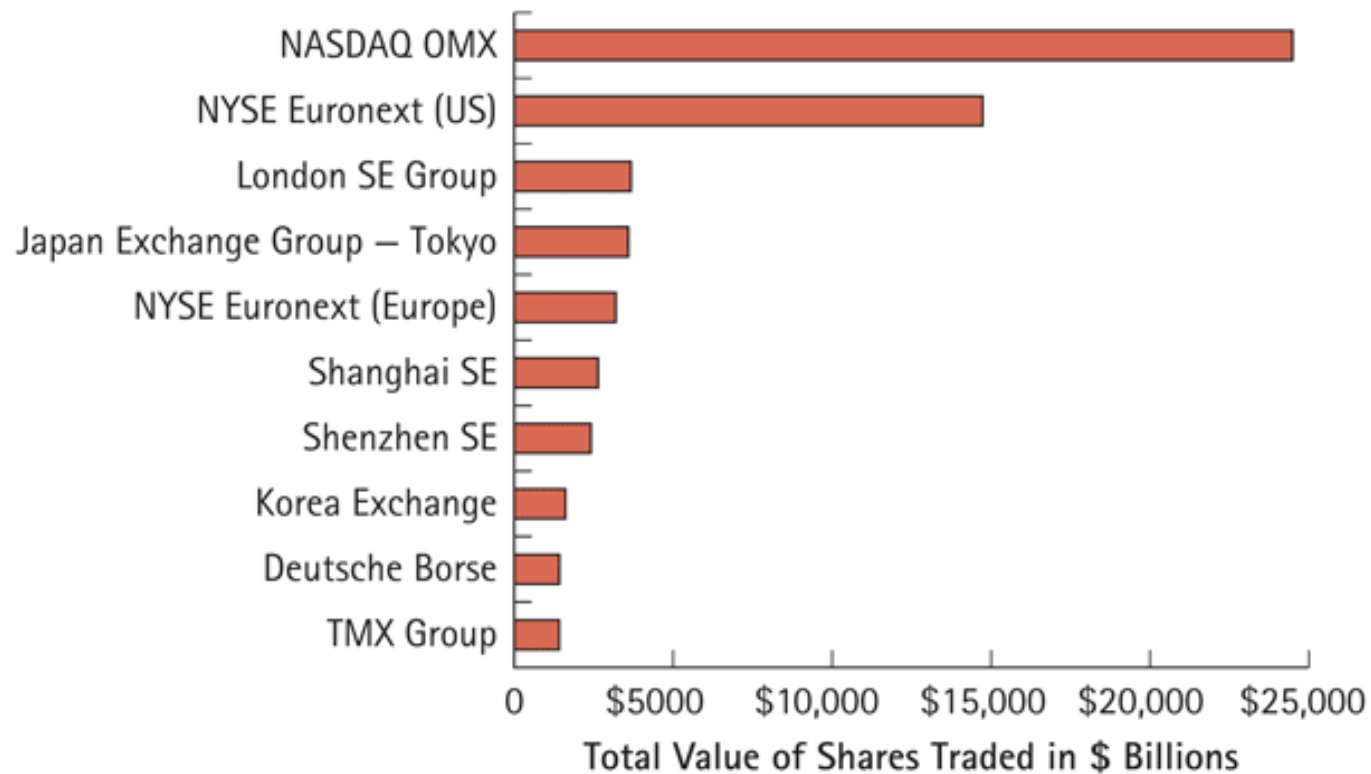
# The Financial Manager's Place in the Corporation

- Ethics and Incentives in Corporations
  - Agency Problems
    - When managers put their own self-interest ahead of the interests of those shareholders
  - The CEO's Performance
    - When the stock performs poorly:
      - The board of directors might react by replacing the CEO
      - A corporate raider may initiate a hostile takeover

# The role of the Stock Market

- Provides **Liquidity** to shareholders: The ability to easily sell an asset for close to the price you can currently buy it for;
- **Public** Company: Stock is traded by the public on a stock exchange.
- **Private** Company: Stock may be traded privately.
  
- **Primary Markets**
  - When a corporation itself issues new shares of stock and sells them to investors, they do so on the primary market.
- **Secondary Markets**
  - After the initial transaction in the primary market, the shares continue to trade in a secondary market between investors.

# Worldwide Stock Markets Ranked by Volume of Trade



Source: [www.world-exchanges.org](http://www.world-exchanges.org).



- Physical Stock Markets

- Auction Market
  - NYSE
- Market Makers
  - Specialists
- Bid-Ask Spread
  - Bid price
  - Ask price
  - Transaction Cost

- Over-the-Counter Stock Markets

- Dealer Markets
  - NASDAQ



- Other Financial Markets

- Bond Market
- Foreign Exchange Market
- Commodities Market
- Derivative Securities

- Types of Financial Institutions

- Banks and Credit Unions
- Insurance Companies
- Mutual Funds
- Pension Funds
- Hedge Funds
- Venture Capital Funds
- Private Equity Funds



# Financial Institutions and Their Roles in the Financial Cycle

Institution	Source of Money	Use of Money
<b>Banks and Credit Unions</b> Examples: <i>Wells Fargo, SunTrust</i>	Deposits (savings)	Loans to people and businesses
<b>Insurance Companies</b> Examples: <i>Liberty Mutual, Allstate</i>	Premiums and investment earnings	Invests mostly in bonds and some stocks, using the investment income to pay claims
<b>Mutual Funds</b> Examples: <i>Vanguard, Fidelity</i>	People's investments (savings)	Buys stocks, bonds, and other financial instruments on behalf of its investors
<b>Pension Funds</b> Examples: <i>CalPERS, REST</i>	Retirement savings contributed through the workplace	Similar to mutual funds, except with the purpose of providing retirement income
<b>Hedge Funds</b> Examples: <i>Bridgewater, Soros Fund</i>	Investments by wealthy individuals and endowments	Invests in any kind of investment in an attempt to maximize returns
<b>Venture Capital Funds</b> Examples: <i>Kleiner Perkins, Sequoia Capital</i>	Investments by wealthy individuals and endowments	Invests in start-up, entrepreneurial firms
<b>Private Equity Funds</b> Examples: <i>TPG Capital, KKR</i>	Investments by wealthy individuals and endowments	Purchases whole companies by using a small amount of equity and borrowing the rest